

Message Text

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ACTION EUR-12

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC PRIORITY 4078

INFO AMCONSUL MONTREAL

ALL OTHER CONSULS IN CANADA (BY POUCH)

C O N F I D E N T I A L SECTION 01 OF 03 OTTAWA 06141

PASS WHITE HOUSE/SCHLESINGER, FEA AND FPC

E.O. 11652: GDS

TAGS: ENRG, CA

SUBJECT: REACTION TO NEB PIPELINE DECISION

REF: OTTAWA 5877

1. SUMMARY. NATIONAL ENERGY BOARD (NEB) DECISION IN FAVOR OF FOOTHILLS-YUKON (ALCAN) LINE SEEMS TO COINCIDE WITH MAJORITY PUBLIC PREFERENCE, BUT DID GENERATE QUALIFIED CRITICISM FROM SOME NEWSPAPERS AND CONSERVATIVE AND NDP MEMBERS OF PARLIAMENT. HARD-LINE OPPOSITION IS CONFINED TO NATIVE GROUPS, THEIR SOUTHERN SUPPORTERS, ECONOMIC NATIONALISTS, AND SOME ENVIRONMENTALISTS. GOC HAS VOTES TO DEAL WITH OBSTACLES OPPOSITION PARTIES MIGHT RAISE IN PARLIAMENT AND CAN IF IT CHOOSES PASS QUICK LEGISLATION TO SHUT OFF COURT CHALLENGE OF NEB DECISION BY COUNCIL OF YUKON INDIANS (CYI) AND PUBLIC INTEREST GROUPS. GOVERNMENT CAN OVERCOME OPPOSITION OF CYI AND ITS ALLIES (WHO ARE FINANCIALLY EXHAUSTED
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AFTER BERGER AND NEB HEARINGS) AT LOW POLITICAL COST ONLY DURING NEXT TWO MONTHS. OVER LONGER TERM HARD-LINERS COULD REGAIN STRENGTH. RECOMMENDATION AGAINST ALCAN BY LYSYK INQUIRY WOULD ALSO RE-ENERGIZE THEM AND RADICALLY ALTER PRESENT PICTURE. WE BELIEVE GOC COULD PROBABLY STILL OVERRIDE HARD-LINE OPPOSITION IN THESE CIRCUMSTANCES, BUT AT HIGHER POLITICAL COST.

END SUMMARY.

2. AFTER WEEK OF PUBLIC ASSESSMENT AND COMMENT ON RECOMMENDATION BY NEB IN FAVOR OF ALCAN NORTHERN GAS PIPELINE, CONSENSUS IS THAT ALCAN WAS ONLY DEFENSIBLE CHOICE. ALCAN COMBINED WITH LATER DEMPSTER LINK IS ONLY POLITICALLY REALISTIC COMPROMISE THAT WILL EVENTUALLY PERMIT WESTERN ARCTIC GAS TO BE BROUGHT TO SOUTHERN CANADA'S MARKETS WHILE AVOIDING THORNY POLITICAL AND ENVIRONMENTAL PROBLEMS IN MACKENZIE VALLEY.

3. WHILE MAJORITY VIEW SEEMS TO WELCOME NEB CHOICE, BOARD'S DECISION HAS GENERATED SOME CRITICISM AS WELL AS OPPOSITION, WHICH FALLS INTO THREE CATEGORIES:

A. THOSE WHO FAVOR ARCTIC GAS AND/OR DON'T BELIEVE ALCAN WITH DEMPSTER LINK IS ECONOMICALLY SOUND OR FEASIBLE: THIS GROUP INCLUDES ARCTIC GAS CONSORTIUM MEMBERS AND CLOSEST SUPPORTERS, TORONTO FINANCIAL ESTABLISHMENT, GLOBE AND MAIL (SEE REFTEL), SOME COLUMNISTS INCLUDING CHARLES LYNCH (WHO WROTE BLISTERING ATTACK ON BERGER AFTER NEB DECISION WHICH LYNCH SAID WAS INFLUENCED BY BERGER) AND PROBABLY SOME CONSERVATIVE MEMBERS OF PARLIAMENT. CONSERVATIVE MEMBERS, HOWEVER, WERE ONLY CAUTIOUSLY CRITICAL, RAISING QUESTIONS IN HOUSE JULY 5 AND 6 ABOUT FEASIBILITY OF DEMPSTER LINK AS MEANS OF DELIVERING DELTA GAS AND

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PUSHING GOVERNMENT TO REQUEST THAT U.S. EXTEND SEPTEMBER 1 DEADLINE IN ORDER TO STUDY IMPACT OF DEMPSTER LINE. OVERALL CONSERVATIVE POSITION IS NOT CLEAR AT THIS POINT; SOME MEMBERS HAVE FAVORED ALCAN ALL ALONG. PARTY IS PRETTY MUCH CONFINING ITS COMMENT TO DEMANDS FOR MORE INFORMATION ON ECONOMICS OF MOVING WESTERN ARCTIC GAS TO SOUTHERN CANADA BEFORE DECISION IS MADE.

B. THOSE WHO OPPOSE ARCTIC GAS BUT WHO WOULD GO ALONG WITH ALCAN PROVIDED GOVERNMENT ATTACHES STRINGENT CONDITIONS TO PROTECT CANADIAN NATIONAL INTEREST: THIS GROUP IS REPRESENTED BY NDP AND ECONOMIC-NATIONALIST TORONTO STAR (SEE REFTEL). NDP QUESTIONS IN HOUSE JULY 5 AND 6 NOTED THAT KNOWLEDGE OF ALCAN ROUTE RECOMMENDED BY NEB IS LIMITED AND ASKED WHETHER GOVERNMENT WILL REQUEST U.S. TO EXTEND SEPTEMBER 1 DEADLINE IN ORDER TO PROVIDE MORE TIME TO STUDY SOCIAL AND ENVIRONMENTAL IMPACT (PRESUMABLY WITH VIEW TO ADDING EVEN MORE STRINGENT CONDITIONS TO MITIGATE IMPACT). NDP MEMBER CALLED ON GOVERNMENT TO SUGGEST THAT U.S. SUBSTITUTE ALASKAN GAS FOR CANADIAN EXPORTS IN ORDER TO RETAIN GAS FOR CANADIAN CONSUMERS. HE ALSO PROBED GOVERNMENT ABOUT 3.5 PERCENT ENERGY DEMAND

GROWTH RATE PROJECTED IN NEB REPORT, ASKING WHETHER GOVERNMENT AGREED WITH NEB ESTIMATE. (DEPARTMENT OF ENERGY, MINES AND RESOURCES LATEST PUBLISHED CONSERVATION GOAL IS ZERO PER CAPITA OR 1.3 PERCENT BY 1985.)

C. ALL OUT OPPONENTS OF ANY NORTHERN GAS PIPELINE THROUGH CANADA AT THIS TIME: THIS POSITION IS REPRESENTED CHIEFLY BY CYI, NWT INDIAN BROTHERHOOD AND THEIR SOUTHERN ALLIES.

4. CYI, OPPOSITION GROUP MOST DIRECTLY AFFECTED BY NEB DECISION, IS NOT IN AS STRONG POSITION AS NWT INDIAN BROTHERHOOD AND CANNOT BE EXPECTED TO POSE SAME LEVEL OF

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC PRIORITY 4079

INFO AMCONSUL MONTREAL

ALL OTHER CONSULS IN CANADA (BY POUCH)

C O N F I D E N T I A L SECTION 02 OF 03 OTTAWA 06141

OPPOSITION AS BROTHERHOOD DID TO MACKENZIE VALLEY LINE. INDIANS CONSTITUTE PROPORTIONATELY SMALLER ELEMENT OF POPULATION IN YUKON. THEY FACE LARGER, BETTER ORGANIZED AND DEVELOPMENT-ORIENTED BUSINESS COMMUNITY. AFTER MUCH LONGER EXPOSURE TO WHITE MANS' WAYS, MORE OF THEIR NUMBER HAVE SUCCESSFULLY MADE TRANSITION FROM TRADITIONAL TO WAGE ECONOMY. THIS ACCOUNTS FOR APPARENT RIFT GROWING IN CYI COUNCIL REPORTED TO EMBASSY BY ASSISTANT DEPUTY MINISTER FOR INDIAN AND NORTHERN AFFAIRS ARTHUR KROEGER. HE SAID THAT EXECUTIVE COUNCIL OF CYI APPROVED MODERATE RESPONSE TO NEB CHOICE OF ALCAN. CYI PRESIDENT DANIEL JOHNSON, HOWEVER, AT PROMPTING OF HIS WHITE COMMUNICATIONS' ADVISORS, ISSUED VERBAL BLAST AT NEB WHICH ECHOED RADICAL NWT BROTHERHOOD RHETORIC AND DEMANDED TEN-YEAR MORATORIUM ON PIPELINE CONSTRUCTION THROUGH YUKON. JOHNSON, AS

RESULT, NOW TAKING CONSIDERABLE INTERNAL CRITICISM. HE
COULD LOSE HIS POSITION BUT THIS IS NOT IMMINENT. POSSI-
BILITY OF SIGNIFICANT OPPOSITION TO GOC CHOICE OF ALCAN
BY CYI IS FURTHER WEAKENED BY FINANCIAL EXHAUSTION OF CYI'S
ALLIES, NWT BROTHERHOOD AND SOUTHERN SUPPORT GROUPS. THUS
INTERNAL DISSENTION AND PROBABLE LACK OF SIGNIFICANT
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OUTSIDE SUPPORT ARE LIKELY TO PREVENT CYI FROM MOUNTING
SUCCESSFUL CAMPAIGN AGAINST ALCAN IN NEXT TWO MONTHS.
SUCH CAMPAIGN WOULD PROBABLY GIVE GOC MOMENTARY PAUSE,
BUT GOVERNMENT COULD EFFECTIVELY COUNTER IT WITH MINIMAL
POLITICAL COST BY OFFERING CYI PROVISIONAL CLAIMS SETTLE-
MENT, DETAILS OF WHICH WOULD BE WORKED OUT BEFORE CON-
STRUCTION BEGINS. ON THIS POINT KROEGER INFORMS EMBASSY
THAT CLAIMS NEGOTIATIONS HAVE REACHED AGREEMENT ON
"SETTLEMENT MODEL." NEGOTIATIONS ARE THUS PROGRESSING
QUIETLY AND WELL. THEY WILL PROBABLY ATTAIN EVEN GREATER
SPECIFICITY BY END OF YEAR, ALL OF WHICH WOULD TEND TO
STRENGTHEN GOC POSITION IF IT DECIDES TO APPROVE ALCAN.

5. CYI'S SOUTHERN ALLIES ARE CHURCH ORGANIZATIONS,
ECONOMIC NATIONALISTS AND ENVIRONMENTALISTS. MOST HAVE
JOINED FORCES IN NATIONAL COALITION AGAINST NORTHERN
PIPELINES. COALITION MEMBERS ARE: COMMITTEE FOR JUSTICE
AND LIBERTY FOUNDATION, PROJECT NORTH, DENE SOUTHERN
SUPPORT GROUP, CANADIAN UNIVERSITY SERVICE OVERSEAS,
WORK GROUP ON CANADIAN ENERGY POLICY, AND OXFAM. CANADIAN
WILDLIFE FEDERATION IS ALSO TAKING THIS LINE. FOR MOST
PART THESE ORGANIZATIONS OPPOSE ALCAN LINE BECAUSE THEY
CLAIM IT IS AN AMERICAN PROJECT THAT IMPOSES SERIOUS SOCIAL,
ECONOMIC AND ENVIRONMENTAL COSTS ON CANADA WITHOUT ANY
COUNTERVAILING BENEFIT. SOME COALITION MEMBERS WANT TO
MOUNT COURT ACTION AGAINST NEB DECISION BUT CANNOT BECAUSE
THEY ARE BROKE AFTER LONG INVOLVEMENT IN BERGER AND NEB
HEARINGS. ONLY ONE ORGANIZATION, COMMITTEE ON JUSTICE AND
LIBERTY, WHOSE MEMBERS ARE VERY DETERMINED BUNCH (THEY
MORTGAGED THEIR HOMES TO SUPPORT SUIT TO BLOCK NEB CHAIRMAN
MARSHALL CROWE'S PARTICIPATION IN GAS PIPELINE HEARINGS)
MIGHT TRY TO MOUNT COURT CHALLENGE, BUT THIS TOO IS UNLIKELY.
PUBLIC INTEREST GROUP OPPOSITION IS FURTHER WEAKENED BY
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LACK OF AGREEMENT BETWEEN ORGANIZATIONS ON MANY ISSUES.
ONLY ONE ISSUE UNITES THEM, THEIR DEMAND FOR NATIVE LAND
CLAIMS SETTLEMENT BEFORE ANY PIPELINE DECISION. SIGNIFI-

CANT WEAKNESS OF THESE GROUPS IS ALSO FACT THAT MANY U.S. PUBLIC INTEREST GROUPS, WHICH HAVE PROVIDED GOOD DEAL OF SUPPORT TO CANADIAN GROUPS, FAVOR ALCAN LINE.

6. GOVERNMENT HAS REACTED TO CRITICISM BY SAYING THAT IT IS STUDYING NEB PROPOSAL AND WILL WAIT FOR RESULTS OF LYSYK INQUIRY AND DEBATE IN PARLIAMENT BEFORE MAKING DECISION. IT IS CAREFULLY AVOIDING HINT OF ANY PREFERENCE AT THIS TIME. IN THE END, GOC WILL HAVE ENOUGH VOTES TO DEAL WITH OBSTACLES CONSERVATIVE OR NDP MEMBERS MIGHT TRY TO RAISE IN PARLIAMENT AND, BY SPECIAL LEGISLATION, PREVENT COURT CHALLENGE OF NEB RECOMMENDATION BY CYI AND PUBLIC INTEREST GROUPS. IN A WORD, MOMENTUM FAVORING ALCAN IS SO GREAT THAT IF GOC DECIDES FOR ALCAN IT CANNOT BE SERIOUSLY OPPOSED IN PARLIAMENT OR THE COURTS.

7. GOVERNMENT'S PRESENT ADVANTAGE OVER HARD OPPOSITION IS, HOWEVER, PROBABLY LIMITED TO NEXT TWO MONTHS DURING WHICH IT CAN OVERCOME HARD-LINERS AT LOW POLITICAL COST. OVER LONGER TERM, THEY COULD REGAIN FINANCIAL STRENGTH EXHAUSTED DURING BERGER AND NEB HEARINGS. STRONG STAND AGAINST ALCAN LINE BY LYSYK INQUIRY WOULD ALSO RE-ENERGIZE HARD-LINE OPPONENTS, RADICALLY ALTERING PRESENT PICTURE.

8. AS FOR LIKELY CAST OF LYSYK'S REPORT, KROEGER IS NOT PREPARED TO SPECULATE. HE POINTS OUT, HOWEVER, THAT IT WILL PROBABLY NOT BE AS DRAMATIC AND STRONGLY PERSONALIZED AS BERGER REPORT, FOR SEVERAL REASONS. REPORT WILL BE PRODUCT OF THREE-PERSON PANEL, AND MANDATE EXPLICITLY

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC PRIORITY 4080

INFO AMCONSUL MONTREAL

ALL OTHER CONSULS IN CANADA (BY POUCH)

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PERMITS EXPRESSION OF DISSENTING VIEWS. BY TEMPERAMENT, LYSYK IS MORE RETIRING AND SOFT-SPOKEN THAN BERGER, THOUGH A MAN OF STRONG CONVICTION ONCE HIS MIND IS MADE UP. KROEGER ADDED THAT LYSYK HAS REPUTATION FOR DELIVERING ON SCHEDULE, AND THAT SEEMS PROBABLE IN THIS CASE. IF LYSYK SHOULD ADD HIS SUPPORT TO PIPELINE OPPONENTS, OR POSE VIRTUALLY INSUPERABLE CONDITIONS, EMBASSY BELIEVES GOC COULD STILL OVERCOME ALL OPPOSITION AND OPT FOR CONSTRUCTION, BUT POLITICAL COST WOULD BE HIGH. DUEMLING

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